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Director, Policy Matters

EX PARTE OR LATE FILED



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February 19, 1997

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FEB 19 1997

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

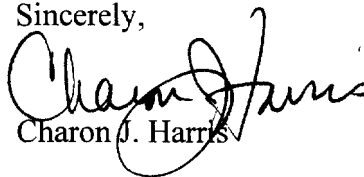
EX PARTE: Federal-State Joint Board on Universal Service (CC Docket No. 96-45)

Dear Mr. Caton:

Today representatives of GTE Service Corp. and Professor Paul Milgrom of Stanford University met with John Nakahata, Chief of the Competition Division, and Anthony Bush to discuss GTE's auction proposal in the captioned docket. GTE used the attached document in its presentation. In accordance with Section 1.1206(a)(1) of the Commission's Rules, two copies of this notice are being filed with the Secretary of the FCC.

Please let me know if you have any questions.

Sincerely,


Charon J. Harris

Attachment

cc: A. Bush
J. Nakahata

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List ABCDE

041

Auction Proposal
for
**universal
service**


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Why an Auction?

- 
- Market solution to setting subsidy levels
 - Ensures adequacy of support
 - Avoids unnecessarily high subsidies
 - Identifies efficient (“low cost”) suppliers
 - » Bids reflect *bidders’ own* cost expectations
 - » Bids reflect follow-on services, too
 - Replaces cost-of-service regulation

Auction Design Objectives



- Promote competition “in the market” where feasible: innovation & service quality
 - Promote efficiency of supply
 - » Low costs & valuable vertical services
 - Keep subsidies low
-
- Avoid collusion
 - Simplify administration and bidding
 - Account for changing environment

Context for the Auction



Auctions amplify the importance of these:

- Small geographic areas (CBGs)
- Obligation to serve
- Possibility of exit
- Subsidies on a per-subscriber basis
- Integrated regulation of unbundling & resale obligations

Auction Elements




- Nomination of Areas
- Verification of Bidder Qualifications
- Sealed Bid Auction with Possibility of Multiple Winners
- Post-auction Implementation

Nomination




- Twice yearly window for nomination by “el tel”
- Entrant may nominate multiple CBGs
- Auction only areas nominated


Verification

- 
- “El tel” designation
 - Require commitment to serve
 - » service obligations established by state commission, within federal guidelines
 - Verify bidder capabilities

Auction Rules

- 
- Single round sealed bid auction
 - Separate bids for each CBG
 - Maximum bid based on initial subsidy
 - » multiple of cost estimated by model, or
 - » cost assigned to CBG by ILEC
 - Multiple winners possible
 - » E.g. all bidders within 15% of low bid declared winners
 - Support at highest acceptable bid
 - Bids may be withdrawn subject to penalty

Post-Auction Implementation

- 
- Reasonable transition period when market structure changes
 - Obligations are transferable to qualified el tels
 - Areas may be rebid at any time if no change in market structure
 - Areas may be rebid after three years after an auction that changes the market structure
 - Subsidies may be indexed in similar fashion to “price caps”